

# Executive Economic Outlook And Summary



Spring/Summer 2013

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Optimism is in the air; that's Multop Financial's official statement as we look forward to the next six months of 2013. US stock funds raced out of the gates this year, helping to support our recommended market portfolios. We expect to see continued economic growth going forward, however investors should be aware that due to the dramatic increase in stock prices, volatility in either direction would not be surprising.

Multop Financial looks at several economic indicators as the core of US economic growth. The housing market has shown consistent, upward movement. We have also seen a reconfirmation of the "Bull Market" trend, according to the Dow Theory. This is important because it shows a shift from the past 5 years where economic growth was contingent on unprecedented government stimulus. Corporate earnings appear to be strong, however overall revenue was slightly down on average.

The areas of concern are mostly focused on international issues. Europe continues to be a drag on the overall global investment arena as it heads deeper into recession with its fifth straight quarter of negative growth. China also shows weakness and we anticipate that it may be headed toward an economic slowdown.

As we expected, the government "sequester" has had little-to-no effect on economic output. Unemployment figures appear to be headed in the right direction even after adjustments are made for those leaving the workforce. Since we began publishing our Executive Economic Outlook at the beginning of 2008, Multop Financial has maintained the position that unemployment and housing stability are essential for our economy with regards to creating long-term, sustainable growth. Now that we see these areas are showing fundamental strength, we continue to recommend a meaningful allocation of equities in our client portfolios.

Here are a few economic figures we believe are worth taking note of:

- The S&P/Case-Shiller Index is showing a 9.3% rise in home prices over the past 12 months. Two cities, Atlanta & Dallas showed the highest figures ever recorded since the index was created, and 16 of the 20 cities included in the index showed robust price increases.
- The Conference Board Consumer Confidence Index®, which had declined in March, increased in April. The Index now stands at 68.1, up from 61.9 in March. The Present Situation Index increased to 60.4 from 59.2. The Expectations Index improved to 73.3 from 63.7 last month.
- The Institute for Supply Management reported that manufacturing activity expanded in April for the fifth consecutive month, and the overall economy grew for the 47th consecutive month. The Production Index increased by 1.6% to 53.5 in April and appears to be gaining momentum.
- The National Federation of Independent Business's shows small business expansion as being flat to negative, citing an uncertain political climate which is causing small business owners to be reluctant to make substantial new business investments. This skepticism is largely pointed at fiscal policy coming out of Washington DC and there is strong doubt that lawmakers will be able to display any meaningful change going forward.
- The Commerce Department reported that consumer spending advanced 0.2% in March after a 0.7% rise in February. The increase, which beat economists' expectations for a flat reading, was driven by higher spending on utilities, posting a second straight month of hefty gains. Spending on goods, a key measure of underlying demand, fell. Consumer spending increased the most as households shook off a steady rise in gasoline prices.

- The national unemployment rate has shown signs of improvement over the past 12 months, currently sitting at 7.5% according to figures released by the Bureau of Labor Statistics for April 2013. That's the lowest unemployment rate since December 2008. However, when adjusted to account for those who have quit looking for work, the figure is closer to 11.7%.
- U.S. real Gross Domestic Product, the output of goods and services produced by labor and property located in the United States, increased at an annual rate of 2.5% in the first quarter of 2013.
- The S&P 500 showed a remarkable first quarter, closing at a record 1569.19, beating October 2007's 1565.15. The Dow, which has been trading at record highs since early March, rallied more than 11% and booked its best first quarter since 1998. The S&P 500 soared 10% and the Nasdaq was up 8%.
- The CBOE Volatility Index currently sits at 12.91, which is well below its long-term average range of 20-30. Whether equity market volatility can remain compressed is something to keep an eye on in the second quarter.

In light of all this positive news, we want to make sure investors also have a realistic expectation of their investments. Technically speaking we are overdue for a normal, healthy market correction in US equities. This means we could experience as much as a 1,500 point retrenchment in the Dow Jones Industrial Average. Whether this happens or not remains to be seen, but as equity values continue to climb, so do the odds of a correction. Investors with a moderate risk tolerance should be able to withstand any potential drops under the premise that the overall trend is upward and understand that statistically speaking, it is a losing proposition to attempt a guess at when a correction will happen.

With this overall economic optimism comes an increased risk that bond yields will start to increase, causing bond prices to fall. Investors specifically in bond funds should revisit their allocations and consider their risk exposure. We have already begun to see signs of rate increases and expect this trend will continue as economic growth continues. High-Yield bond funds and short duration bond funds would likely be the exception to his generalization.

What does this mean for your investments? Because the Dow Theory currently suggests we are in a "Re-Confirmed Bull Market" Multop Financial recommends clients should not be afraid to buy reasonably valued stock portfolios or remain in a portfolio which contains mostly US equities for the near future. We have also seen strength in the commercial real estate markets and believe this trend will continue, therefore allocating a portion of portfolios to non-traded REITs appears attractive. We are recommending that clients should limit their exposure to mid & long-term bonds funds and should be cautious of gold & precious metals funds as they traditionally have an inverse relationship to US economic growth cycles.



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